

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Illinois Bell Telephone Company)	98-0252
Application for review of alternative regulation plan.)	
Illinois Bell Telephone Company)	98-0335
Petition to rebalance Illinois Bell Telephone Company's Carrier Access and Network Access Line Rates.)	(cons.)
Citizens Utility Board and The People of the State of Illinois -vs- Illinois Bell Telephone Company)	00-0764
Verified Complaint for a Reduction in Illinois Bell Telephone Company's Rates and Other Relief.)	

**SURREBUTTAL TESTIMONY OF
CATE CONWAY HEGSTROM
ON BEHALF OF
AT&T COMMUNICATIONS OF ILLINOIS, INC.**

AT&T Exhibit 1.0

January 19, 2001

Q. Please state your name and business address.

A. My name is Cate Hegstrom. My business address is 222 West Adams St., Suite 1500, Chicago, IL 60606.

Q. By whom are you employed and in what capacity?

A. I am employed by AT&T as a District Manager - Government Affairs.

Q. Describe your education and professional background.

A. I received a B.A. degree in Mathematics from Benedictine College in Atchison, Kansas. In December 1974, I began my telecommunications career in the Network Operations Department of AT&T Long Lines in Omaha, Nebraska. My responsibilities included the provisioning and maintenance of the switched and special services network. In 1977, I joined the Regulatory Department of Northwestern Bell Telephone Company (NWB), where I performed cost and rate studies used in connection with private line, ENFIA and related services. In 1983, I returned to AT&T, joining what became the Marketing Plans Implementation organization of AT&T Communications in Omaha. In that position, I was primarily responsible for analyzing Local Exchange Carrier ("LEC") access filings within the five NWB states.

In 1986, I accepted a position with the AT&T Communications staff organization in New Jersey. My duties included the analysis of regulatory issues and the development of positions related to AT&T's intrastate services.

In 1988, I joined AT&T Corp.'s External Affairs organization in Chicago, where my job duties included contracting and liaison activities between AT&T and several large independent telephone companies in AT&T's ten Central Region states. In 1990, I assumed responsibility for the analysis and administration of access-related issues and LEC regulatory issues affecting AT&T's intrastate operations in several Central Region states, including Illinois. In January 1997, I accepted the position of District Manager-Regulatory Matters.

Q. Have you previously filed testimony before the Illinois Commerce Commission (“ICC”) or (the “Commission”)?

A. Yes. I have testified before the Commission in ICC Docket No. 93-0044 (MCI and LDDS Complaint against Illinois Bell), ICC Docket No. 93-0409 (MFS Application for an Amended Certificate), ICC Docket Nos. 93-0301/94-0041 (GTE North Rate Case), ICC Docket Nos. 94-0042 through 94-0046 (Investigation of Switched Access Local Transport Restructure Rates), ICC Docket Nos. 94-0048, 94-0049, 94-0117 and 94-0146 (Rulemakings for Presubscription and Line Side Interconnection, Ameritech Customers First Plan, AT&T Petition), ICC Docket No. 94-0480 (Investigation into Physical Collocation), ICC Docket Nos. 95-0458/95-0531 (Petition for Wholesale Service Tariffs of Ameritech and Centel Companies), ICC Docket Nos. 95-0135/ 95-0179 (Illinois Bell Reclassification of Bands B and C Usage/Increase to Business Band C Rates), ICC Docket No. 96-AB-005 (AT&T/GTE North Arbitration), ICC

Docket No. 97-0621 (DEM Stipulation), Phase I of ICC Docket Nos. 97-0516/97-0601/97-0602, ICC Docket No. 98-0321 (Gallatin River Acquisition Application), ICC Docket No. 98-0866 (Bell Atlantic/GTE Merger), ICC Docket No. 99-0038/99-0039 (Ameritech Access Refund Complaint), ICC Docket No. 98-0860 (Competitive Classification of Ameritech Services), Phase I of ICC Docket Nos. 00-0233/00-0335 (Rural ILEC USF Investigation) and ICC Docket No. 99-0536 (Imputation Rulemaking Revision). I have also represented AT&T in a number of Illinois workshop proceedings including those convened in ICC Docket No. 90-0425 (Access Charges), ICC Docket No. 92-0210 (Imputation Rulemaking), ICC Docket No. 92-0211 (Cost of Service Methodology and Rulemaking), ICC Docket No. 92-0398 (Interconnection Rulemaking) and ICC Docket No. 00-0555 (Reciprocal Compensation for ISP-Bound Traffic Rulemaking).

Q. Have you testified before other state commissions?

A. Yes. I testified before the Michigan Public Services Commission in Case No. U-10647 (City Signal Complaint), Case No. U-10860 (Generic Interconnection Investigation), Case No. U-11053 (ACI Application), Case Nos. U-11151/U-11152 (Ameritech Arbitration), Case No. U-11165 (GTE North Arbitration), Case No. U-11660 (AT&T Complaint Against Ameritech Access PICC Rates), Case No. U-11831 (Ameritech Michigan TSLRIC review), Case No. U-11832 (GTE North TSLRIC review), Case No. U-11899 (USF Investigation), Case No. U-12287 (AT&T Complaint Against Ameritech Access Rates) and Case No. U-12465 (AT&T/Ameritech Michigan Arbitration Petition). I have testified before

the Indiana Regulatory Utility Commission in Cause No. 39369 (Access Investigation), Cause No. 39385 (Special Access CSOs), Cause No. 40571-INT-02 (GTE North Arbitration), Cause No. 40785 (Universal Service and Access Charge Restructure Investigation), Cause No. 41255 (Ameritech/SBC Merger Application) and Cause No. 40571-INT-03 (AT&T/Ameritech Indiana Arbitration Petition). I also testified before the Public Utilities Commission of Ohio in Case Nos. 92-1525-TP-CSS/92-1149-TP-ALT (Western Reserve Alternative Regulation), Case No. 96-832-TP-ARB (GTE North Arbitration), Case No. 96-336-TP-CSS (Ameritech Access Service Rate Complaint), Case No. 98-1398-TP-AMT (Bell Atlantic/GTE Merger) and Case No. 1188-TP-ARB (AT&T/SBC-Ameritech Arbitration Petition) and before the Public Service Commission of Wisconsin in Docket Nos. 265-MA-102/2180-MA-100 (GTE Arbitration), Docket No. 6050-TI-101 (Frontier Alt. Reg.), Docket No. 05-TI-174 (Price Regulation Review), in dockets 1910-T1-101/2050-T1-100/3070-T1-100/6040-T1-100/5530-T1-100/4590-T1-100 (CenturyTel Company (6) Alternative Regulation Applications), in dockets 2055-NC-100/5846-NC-100/2055-TR-100/5846-TR-100 (CT/GTE asset purchase), in docket 05-MA-120 (AT&T/Ameritech Arbitration Petition) and in docket 2815-TR-103 (CenturyTel-Kendall Emergency Petition for Rate Increase).

Q. What is the purpose of the your testimony?

A. The purpose of my testimony is to respond to the rebuttal testimony of Staff witnesses Mr. Robert Koch, Mr. Samuel S. McClerren and Mr. Mark A. Hanson.

Q. Please provide your understanding of Mr. Koch's position regarding the inclusion and treatment of carrier access charges within an extension of an Alternative Regulation Plan for Ameritech Illinois.

A. Mr. Koch is now recommending the continuation of a Carrier Basket to which carrier access services would be assigned. He bases this recommendation on a revised (and correct) understanding of the switched access pricing parameters and policy contained in the Commission's Order in Phase II of ICC Docket No. 97-0601/97-0602. Based on his current understanding, access charges may be reduced without being in violation of that Commission Order.

Q. Do you agree?

A. Yes. Ms. TerKeurst explained on pages 51-52 her direct testimony filed November 3, 2000 that it is proper that switched access rates reflect reduced costs, which are captured by the PCI. Ms. TerKeurst suggests that continued inclusion of access services in the price cap mechanism may reduce the need to update switched access cost studies periodically. I would add that beyond the reduction of access LRSICs, to the extent that Ameritech Illinois' forward looking common costs are decreased, continuing to include access services in the price cap mechanism would allow this cost reduction to be reflected in access rates as well. Mr. Koch's current recommendation regarding the continued inclusion of access services in the Carrier Basket is consistent with this price cap mechanism benefit, and I fully support it.

Q. Mr. Koch has not changed his position regarding the inclusion of unbundled network elements (“UNEs”), Interconnection, and Transport and Termination services in the Carrier Basket. Do you concur with him on this issue?

A. No. For the same reasons on which I base my recommendation to include carrier access services in the Carrier Basket, I recommend inclusion of UNEs, Interconnection, and Transport and Termination services. There is nothing in the Commission’s orders resulting from Ameritech Illinois TELRIC investigations that prohibit the reduction of rates for these services below the rates filed in compliance with Commission orders, nor would reduced rates be in violation of TELRIC requirements provided they do not fall below the pre-marked up levels. Ms. TerKeurst has supported her recommendation regarding inclusion of these services with similar arguments. (GCI Exhibit 1.0 (TerKeurst Direct), pp 54-60)

Indeed, in his direct testimony, Mr. Koch supported his initial recommendation to exclude carrier access service from the price cap mechanism by likening the pricing requirement to that of UNEs, i.e., “based on cost.” (Staff Exhibit 13.0 (Koch Direct), p. 38) It is only logical that reductions to TELRIC-based rates are as appropriate as reductions to LRSIC-based rates. Thus, the Commission should now require UNEs, Interconnection, and Transport and Termination services to be included in the Carrier Basket, should Price Cap Regulation be extended for Ameritech Illinois.

Q. Mr. Koch continues to recommend continued inclusion of wholesale services in the price cap mechanism. Do you concur with this recommendation?

A. Yes. However, Mr. Koch now recommends that Ameritech Illinois's wholesale services remain in the Carrier Basket. Although wholesale services are carrier services, I believe it is more appropriate to include these services in the same basket as the corresponding retail service. Under such an assignment, access services and UNEs, Interconnection, and Transport and Termination services would be treated independent of reductions associated with the mandated relationship between Ameritech Illinois' retail services and wholesale services. Furthermore, because resale of residential wholesale services is restricted to residential consumers, the same consumer classes will be addressed independent of other customer classes. Contrary to the objective offered by Ameritech Illinois witness Mr. O'Brien (i.e., the purpose of a single basket is to rectify past differences between basic residential services and other services (Am II Ex. 3.1 (O'Brien Rebuttal), p. 12)), my recommendation for assigning wholesale services would restrict Ameritech Illinois's ability to unilaterally rebalance its noncompetitive rates.

Q. Do you have any additional concerns regarding the treatment of carrier access services in this docket?

A. Yes. Witnesses in this case have largely accepted Ameritech Illinois' quantification of access service revenue reductions included in its rate rebalancing

proposal. Ameritech Illinois states that it is including \$43,775,063 of reductions to its intrastate switched access services resulting from the Commission Order in Phase II of Docket 97-0601/97-0602. (Am. Ill. Ex. 9.0 ((Van Lieshout Direct), pp. 13-15) Of this amount, an estimate of \$33,295,236 in annual revenue reductions have been implemented through tariffed rate reductions.¹ The remaining \$10,379,827 of estimated annual revenue reductions are anticipated by Ameritech Illinois to result once its updated access LRSICs, filed in response to the Commission's Order in Phase II of Docket 97-0601/97-0602, are investigated and compliant rates are filed.

Q. What is your concern regarding this quantification?

A. In his direct testimony filed August 1, 2000, Mr. Van Lieshout provides Ameritech Illinois' expectation that the investigation of the new access LRSICs will be completed within the same time frame as this proceeding. To date, I am unaware of any schedule being established, or investigation initiated, by the Commission for this purpose. Regardless, parties have provided their respective recommendations as to rate designs partially based upon this yet-to-be realized reduction. Accordingly, to the extent the Commission allows a rate rebalancing of Ameritech Illinois rates in this proceeding, I recommend the Commission require Ameritech Illinois to implement the \$10,379,827 of anticipated access revenue reductions concurrent with any approved rate increases.

¹ On January 8, 2001, AT&T filed a Letter Of Objection to Ameritech Illinois's access service tariff filing, stating that Ameritech Illinois has understated its reductions by approximately twenty million dollars.

Q. Will this eliminate the need for an investigation of Ameritech Illinois' updated access LRSICs?

A. No, it will not. However, the Commission may safely assume that Ameritech Illinois' proposed cost-based access service reduction would be the minimum reduction that would result from a Commission investigation. If further reductions are warranted upon completion of an investigation, those reductions can be implemented at that time.

Q. Do you agree with Staff witness McClerren's position regarding the relationship between Ameritech Illinois' wholesale service quality and an alternative regulation plan for Ameritech Illinois?

A. Yes. Mr. McClerren discusses the three-year time limit of Condition 30 applicability in the Commission's merger order in Docket No. 98-0555. According to Mr. McClerren, Condition 30 requires Ameritech Illinois to take 122 performance measurements used by its parent company, SBC, and, after making necessary modifications for this state, implement them here. In addition, the Commission also requires Ameritech Illinois to use a performance penalty plan where Ameritech Illinois provides substandard wholesale services to CLECs. Condition 30 expires, however, within three years of the merger closing date, i.e., October 2002.

Staff witness Hoagg notes the statutory requirement of any alternative regulation plan to "maintain the quality and availability of telecommunications services."

(Staff Exhibit 15.0, (Hoagg Rebuttal), p. 2) As Ms. TerKeurst correctly notes, end user consumers purchasing local exchange service that is resold would be affected by poor Ameritech Illinois service quality just as would Ameritech Illinois' retail customers. (GCI Exhibit 1.0 (TerKeurst Direct), p. 59)

Therefore, not only do I agree with Mr. McClerren that all performance measurements and the Remedy Plan in effect pursuant to the Merger conditions scheduled to expire in October 2002 should continue, without interruption; I believe it is essential. Mr. McClerren's suggestion that the Commission should order this continuation in this proceeding is appropriate and should be adopted by the Commission.

Q. Which Staff recommendation regarding rate design do you wish to comment upon at this time?

A. Should the Commission approve any rate rebalancing for Ameritech Illinois in this proceeding, Mr. Hanson continues to support Staff's recommendation to offset increases in residential network access line charges with decreases in residential Band A usage rates. Mr. Hanson dismisses Ameritech Illinois witness Sorenson's contention that the duration of a Band A call has increased, based on the fact that Ameritech Illinois had not provided adequate support for this statement. It is regarding the appropriateness of reducing residential Band A usage at this time that I offer comments.

Q. Do you support Mr. Hanson's recommendation?

- A. I do not have a position as to the appropriateness of reductions to residential Band A usage rates. However, in ICC Docket No. 00-0555, Rulemaking for Reciprocal Compensation for Internet Service Provider-bound Traffic, the Commission appears to have accepted this situation. In its Order initiating the Rulemaking, the Commission stated:

One example of a change in the utilization of the local exchange network associated with Internet traffic is the increased call hold-time associated with dial-up Internet usage. Since current reciprocal compensation rates are based on traditional voice calls that, on average, exhibit shorter holding times, it may be inappropriate to apply these rates to local ISP-bound traffic (dial-up Internet traffic routed to an ISP). To exacerbate this problem, the flat-rated local revenue received by the local exchange provider may be insufficient to recover the per-minute of use cost associated with reciprocal compensation payments.

Initiating Order dated August 17, 2000, p. 1.

On January 17 and 18, 2001 I attended a Staff-chaired workshop to discuss in what manner the Commission might address this issue, if at all. Among other options, a general discussion concerning adjusting Band A usage rates ensued. No consensus on issues were reached during the workshop. However, given the seemingly presumption of a “problem”, and given the relationship between the non-duration generated revenues and the duration generated costs of Band A usage, it is short-sighted for Staff to recommend, and inadvisable for the Commission to adopt, any modification to rates in this proceeding that would cause a potentially anti-competitive resolution in the pending ICC Docket No. 00-0555 Rulemaking.

Q. Does this conclude your testimony?

A. Yes, it does.